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# ftc consumer feature

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Bureau of Consumer Protection

April 2003

Federal Trade Commission

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*Going, Going, Gone...*

## **When Online Auction Users Lose Out To Phony Payment and Escrow Services**

Michael Mangin, an occasional Internet auction-goer from South Carolina, recently lost out big on an auction — not to a higher bidder, but to what some may term a dirty rotten scoundrel.

Mangin alleges he was cheated out of \$986 by a scam artist who lured him off an auction site where he was bidding for a laptop computer. The scam artist offered a seemingly better deal and then directed Mangin to what he now believes was a bogus online escrow service: It took his money, but he never received the merchandise.

While initially doubtful about dealing with an “outside” person, Mangin says, he went ahead when the person suggested an online escrow service. “I thought it would be legitimate,” he says. “Now I know to be wary. I got duped.”

Based on the Federal Trade Commission’s (FTC’s) consumer fraud complaint data, he’s not alone. Among the thousands of fraud complaints the FTC receives yearly, those dealing with online auction fraud consistently rank at or near the top. While many complaints deal with late shipments, no shipments, or shipments that aren’t of the quality advertised, an increasing number involve bogus online payment and escrow services.

The complaints suggest that con artists are monitoring auction sites for victims — buyers and sellers — to lure away and trick into turning over their money or merchandise, says Delores Gardner Thompson, an attorney in the FTC’s Division of Marketing Practices. “It’s another example of how fraudulent sellers continue to find new ways to defraud consumers in Internet auctions,” she says.

But the FTC is taking action. This month, it sued the operators of a so-called online escrow service for defrauding sellers who offered merchandise for auction on the Internet. More cases could be in the offing.

Savvy online auction-goers can take steps to avoid falling victim to fraudulent online payment and escrow services — from checking the service’s Web site to reading the service’s terms of agreement.

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“Overall, people have positive experiences on Internet auctions,” says Ina Steiner, editor of AuctionBytes.com, an online resource on Internet auctions. “But people need to be careful. The few bad apples can make it hard for the rest of us.”

### Online Payment Options

Online payment and escrow services have become extremely popular in the Internet auction world. Here’s why: Online payment services allow buyers to use a credit card or electronic bank transfer to pay sellers who may not be set up to accept these kinds of transactions. When the purchase is made, the buyer tells the online payment service to direct the appropriate funds to the seller, who then has immediate access to the money.

Online escrow services accept and hold check, money order or credit card payments from the buyer until the buyer *receives and approves* the merchandise; then, they forward the payment to the seller.

Sellers usually pay the fee for online payment services, while buyers usually pay for escrow services — generally a percentage of the item’s cost. Online escrow services usually are used for costly items, like computers, cars and jewelry.

Sellers often specify up front whether they accept payment through online payment services and if so, which ones. Decisions about escrow services usually are made when the seller contacts the “winning” bidder to arrange for payment and delivery.

### Safety Measures

How can users determine whether an online payment or escrow service is legitimate? Thompson says that although there are no guarantees, a little advice and awareness can go a long way. She recommends that consumers:

- Read the service’s terms of agreement. If it’s an online payment service, find out:
  - whether it offers buyers any recourse if sellers don’t keep their end of the bargain.
  - whether it prevents sellers from accessing their funds if buyers are not satisfied with the product.
  - who pays for credit card charge backs or transaction reversal requests. If the online payment service cannot recover the loss from the seller, it might try to recover the loss from you, using the credit card or bank account information on file. (Some experts say you should consider reserving a credit card, stored-value card or bank account for online transactions only.)
- Examine the online payment or escrow service’s privacy policy and security measures. Never disclose financial or personal information unless you know why it’s being collected, how it will be used, and how it will be safeguarded.
- Check out the online payment or escrow service’s Web site. A site of poor quality with, say, misspelled words or claims that the service is affiliated with the government, is suspect.
- Call the customer service line. If there isn’t one — or if you call and can’t reach someone — don’t use the service.
- Find out how the online escrow service processes transactions. Avoid sites that don’t process their own, but rather require users to set up accounts with online payment services.

- Check with the Better Business Bureau, state attorney general or consumer protection agency where you live and where the online payment or escrow service is based to see whether there are unresolved complaints against the service. Be aware that a lack of complaints doesn't necessarily mean that a service has no problems.

If you encounter problems after you've signed up with an online payment or escrow service, try to work with the seller, buyer or site operator first. If that doesn't work, file a complaint with:

- the attorney general's office in your state.
- your county or state consumer protection agency. Check the blue pages of the phone book under county and state government.
- the Better Business Bureau.
- the FTC. Use the Web site [www.ftc.gov](http://www.ftc.gov) or call toll-free 1-877-FTC-HELP (1-877-382-4357).

The FTC's booklet *Internet Auctions: A Guide for Buyers and Sellers* ([www.ftc.gov/bcp/online/pubs/online/auctions.htm](http://www.ftc.gov/bcp/online/pubs/online/auctions.htm)) offers additional advice on how to avoid auction-related fraud.

Michael Mangin, who says he was defrauded by an online escrow service, says he erred by not heeding his instincts and checking out the service thoroughly before sending payment. But, he says, he won't let the experience keep him from participating in online auctions in the future. "Now I know what to look for," he cautions.

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The Federal Trade Commission works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit [www.ftc.gov](http://www.ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

Federal Trade Commission	Toll-free 1-877-FTC-HELP
<a href="http://www.ftc.gov">www.ftc.gov</a>	For the Consumer